

Implications of Employer Ascendancy



WESTIN ST. FRANCIS • JANUARY 2-5, 2009

61ST ANNUAL MEETING

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Erickson & Mitchell
January 3, 2009



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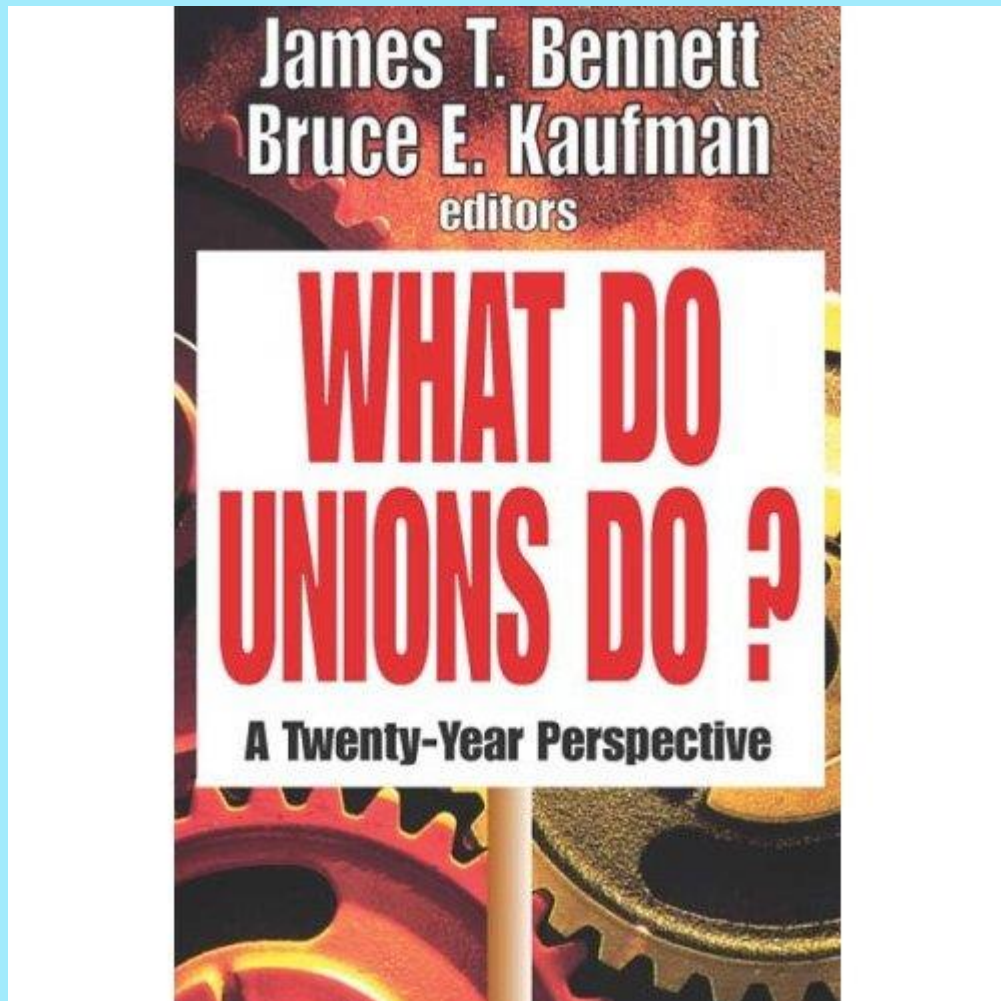
Implications of Employer Ascendancy



"There are no medical or pension benefits, but the employees' lounge has excellent free coffee."

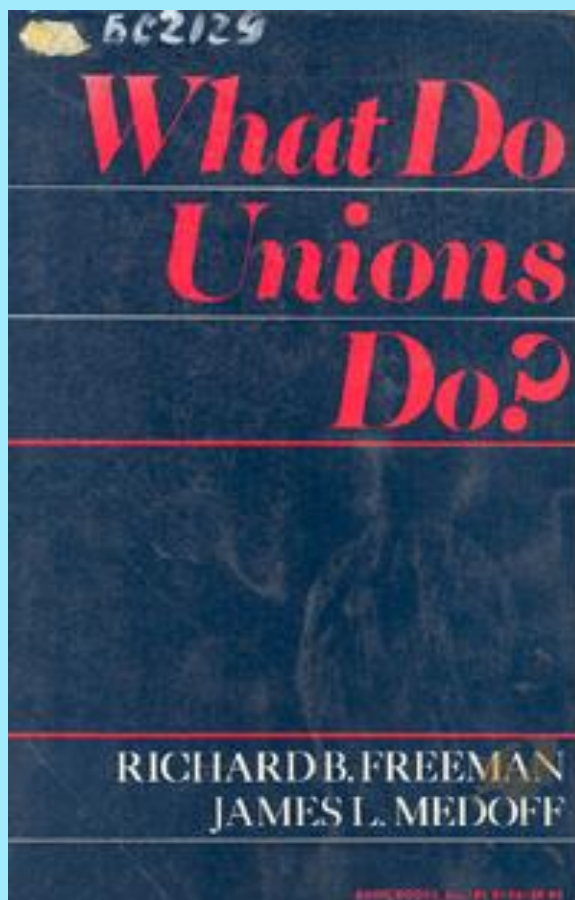
Erickson & Mitchell
January 3, 2009





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vol. 26, Spring 2005**

Mitchell & Erickson,
"De-Unionization and
Macro Performance: What
Freeman and Medoff
Didn't Do." *Journal of
Labor Research*, vol. 26,
Spring 2005



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Labor Research*, vol. 26,
Spring 2005



De-Unionization
and Macro
Performance:
*What Freeman and
Medoff Didn't Do*



Daniel J.B. Mitchell
Christopher L. Erickson

Philadelphia, Jan. 7, 2005

- Erickson & Mitchell. (2007). Monopsony as a metaphor for the emerging post-union labour market. *International Labour Review* , Vol. 146, No. 3-4.
- Erickson & Mitchell. (October 2005). Not yet dead at the fed: Unions, worker bargaining, and economy-wide wage determination. *Industrial Relations* , Vol. 44, No. 4.
- Mitchell & Erickson. (2002-03). The Individual Employee in the Context of Employer Ascendancy: New-Old Analysis. *Journal of Individual Employment Rights*, Vol. 10, No. 3.
- Mitchell & Erickson. (December 2005). Monopsony: Today's New Labor Market Reality. *WorkingUSA*, Vol. 8.
- Mitchell & Erickson. (2007). The Concept of Wage-Push Inflation: Development and Policy. *Labor History*, Vol. 49, No. 4.

Implications of Employer Ascendancy

MACRO



Business Cycle

micro



Pay

Benefits

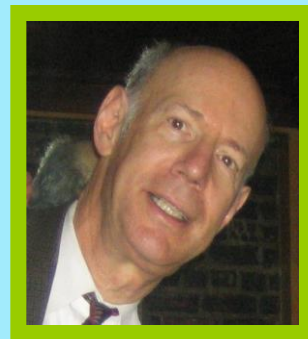
Voice

Security

**Income
distribution**



Our Macro Story

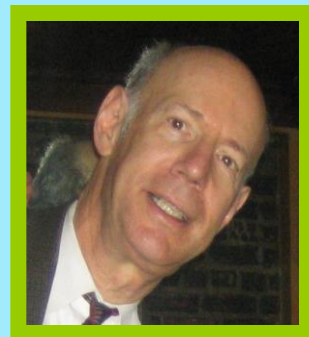


- Deunionization had a macro effect, moving from monopoly wage determination (F&M) to monopsony (pre-1930s view of labor market).
- Macro policy pre-1980s and pre-deunionization dominated by notions of wage-push inflation and wage-price spirals
 - Eisenhower exhortations
 - Kennedy guideposts
 - Nixon wage-price controls
 - Ford exhortations
 - Carter wage-price guidelines
- Surprisingly, such notions lingered (linger?) long after deunionization among policy makers and macroeconomists





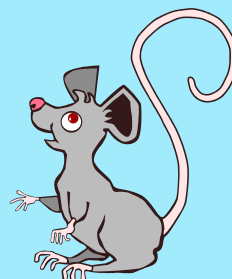
Our Micro Story



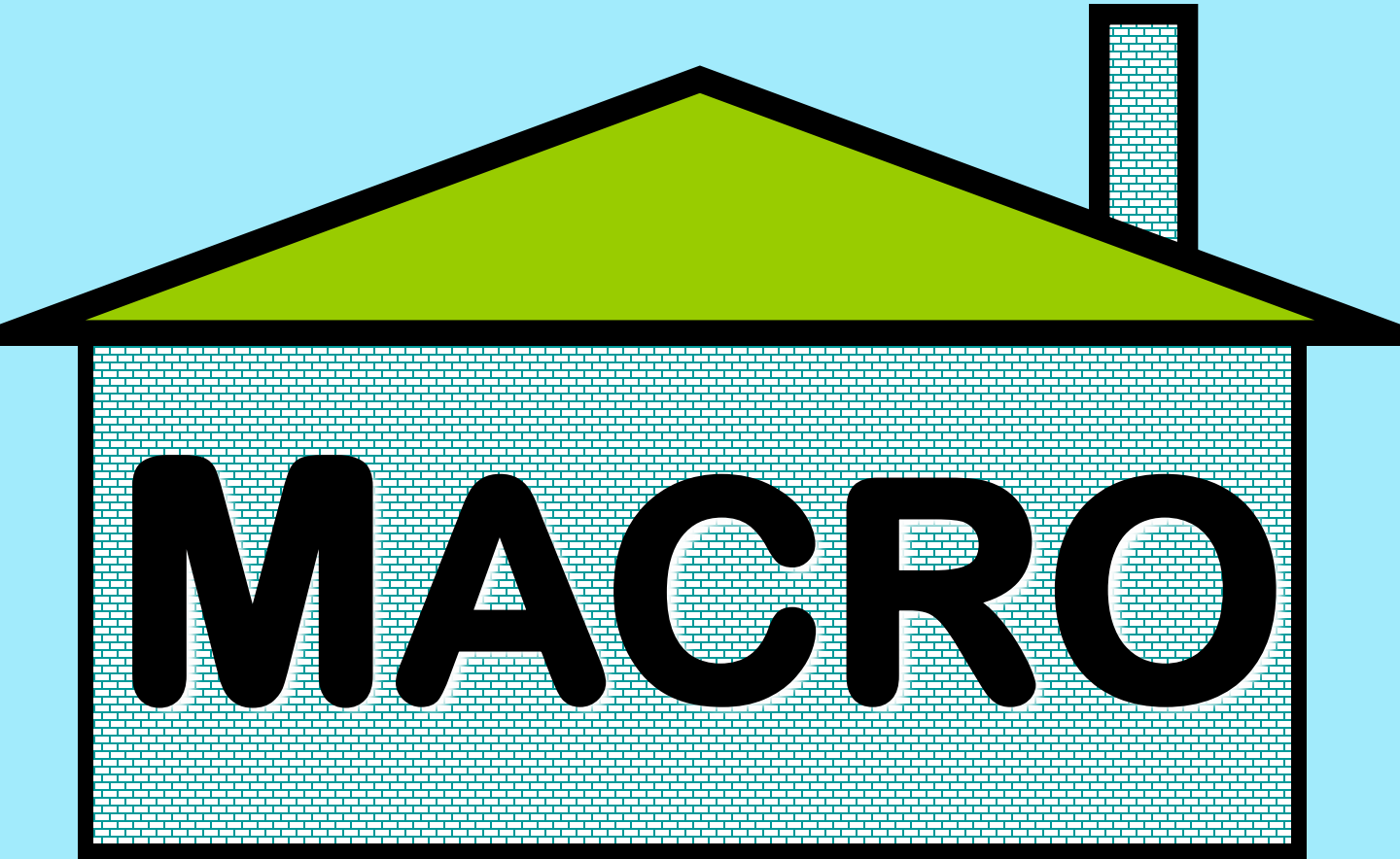
Unlike usual notion in economics of “competitive” labor market as optimal, monopsony suggests

- Wage is too low
- Benefits are too low
- Conditions are suboptimal
- Income distribution squeezes labor’s share of national income (cyclically adjusted)

- 1959 _____ 61.6%
- 1969 _____ 64.9%
- 1979 _____ 66.7%
- 1990 _____ 65.6%
- 2000 _____ 64.4%
- 2006 _____ 63.0%



Building the House of Macro on Micro Foundations



micro

micro

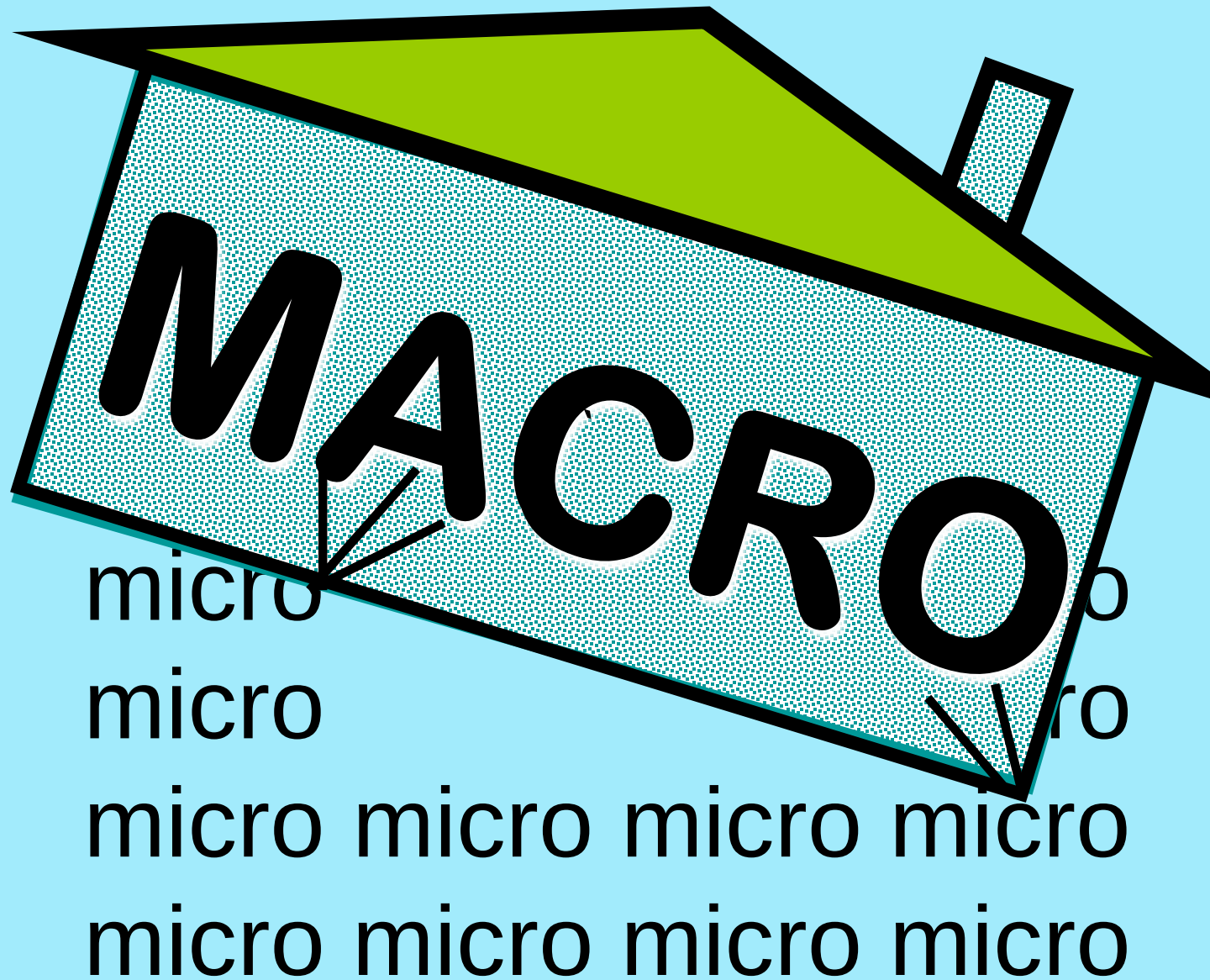
micro

micro

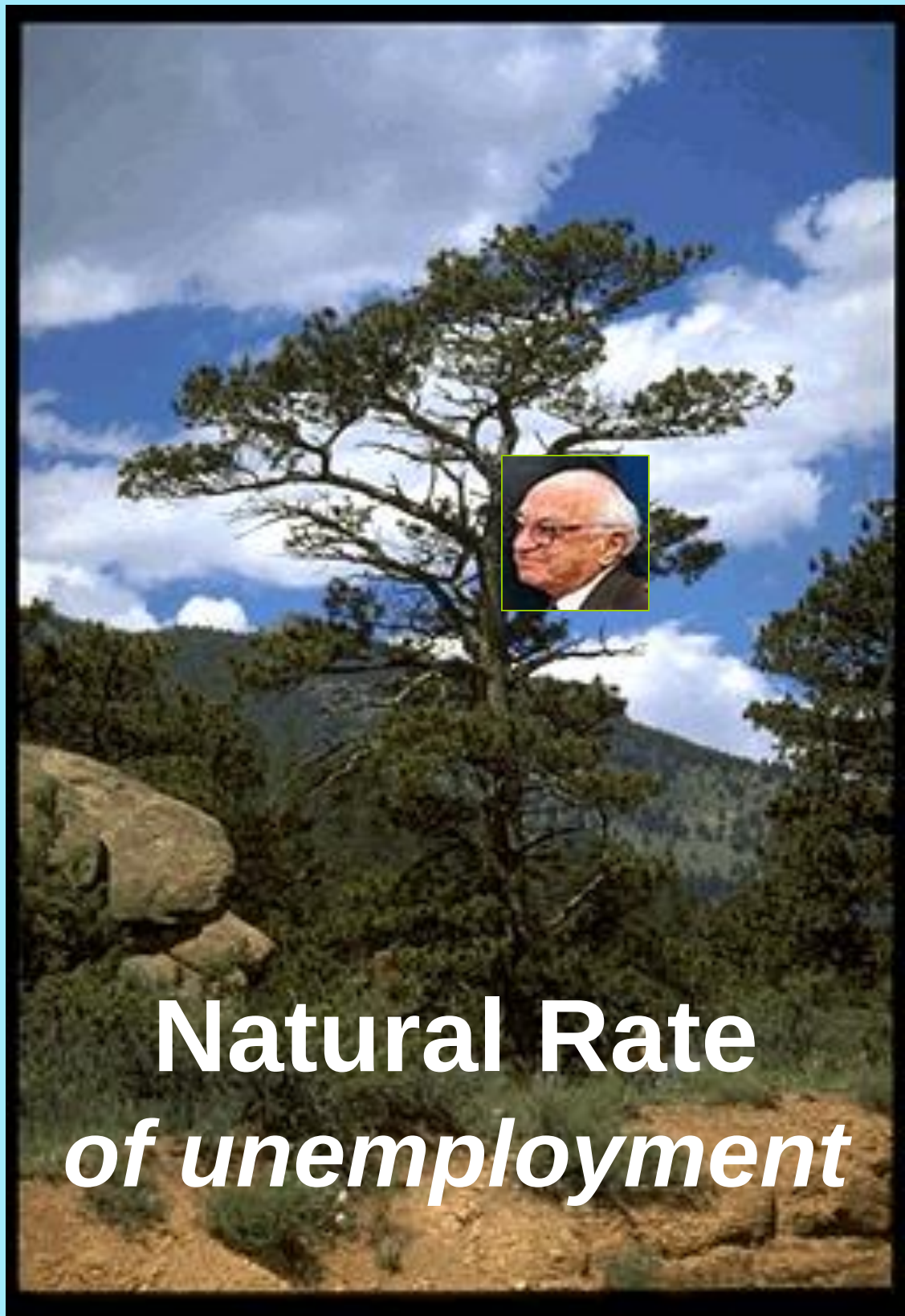
micro micro micro micro

micro micro micro micro

Building the House of Macro on Micro Foundations



Milton Friedman



**Natural Rate
*of unemployment***

Milton Friedman



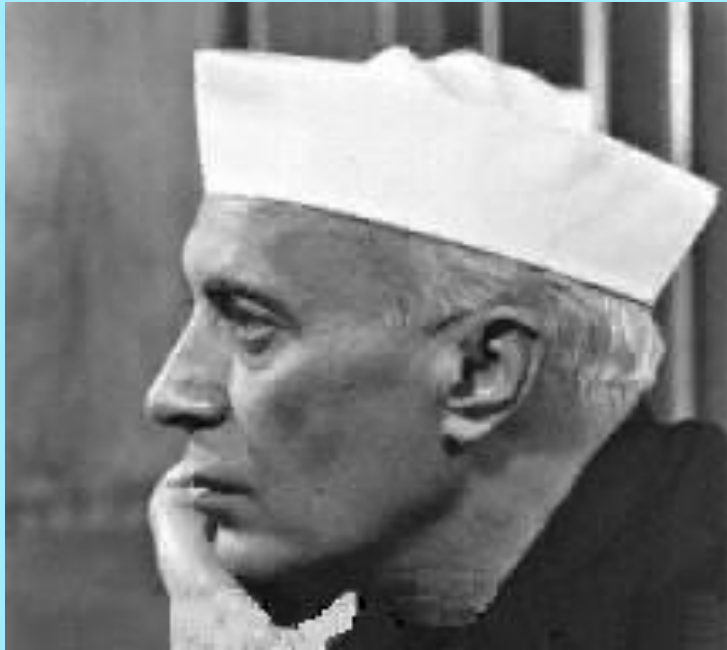
**Natural Rate
*of unemployment***

NAIRU



***= non-accelerating
inflation rate of
unemployment***

**Not to be
confused with...**



Nehru

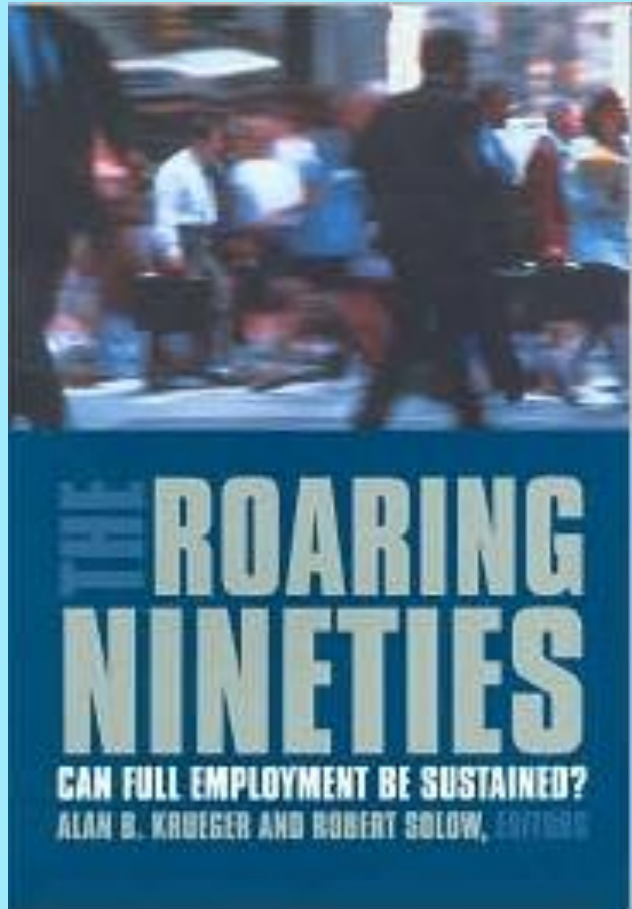
6%

5%

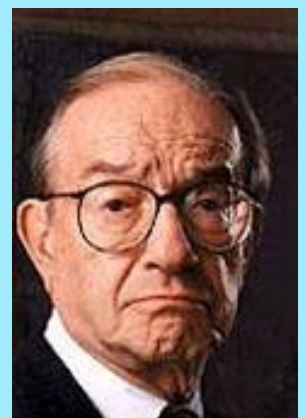
6%

4%

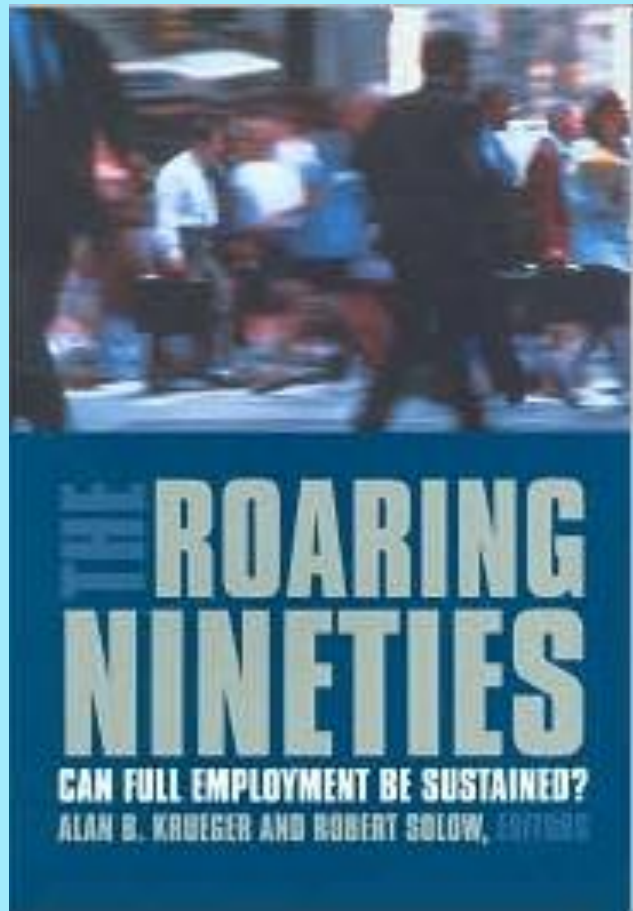
(Too?) Many stories of why the NAIRU was so low in the 1990s



- **Productivity/technology reduced unit labor costs**
- **Globalization: competition through trade**

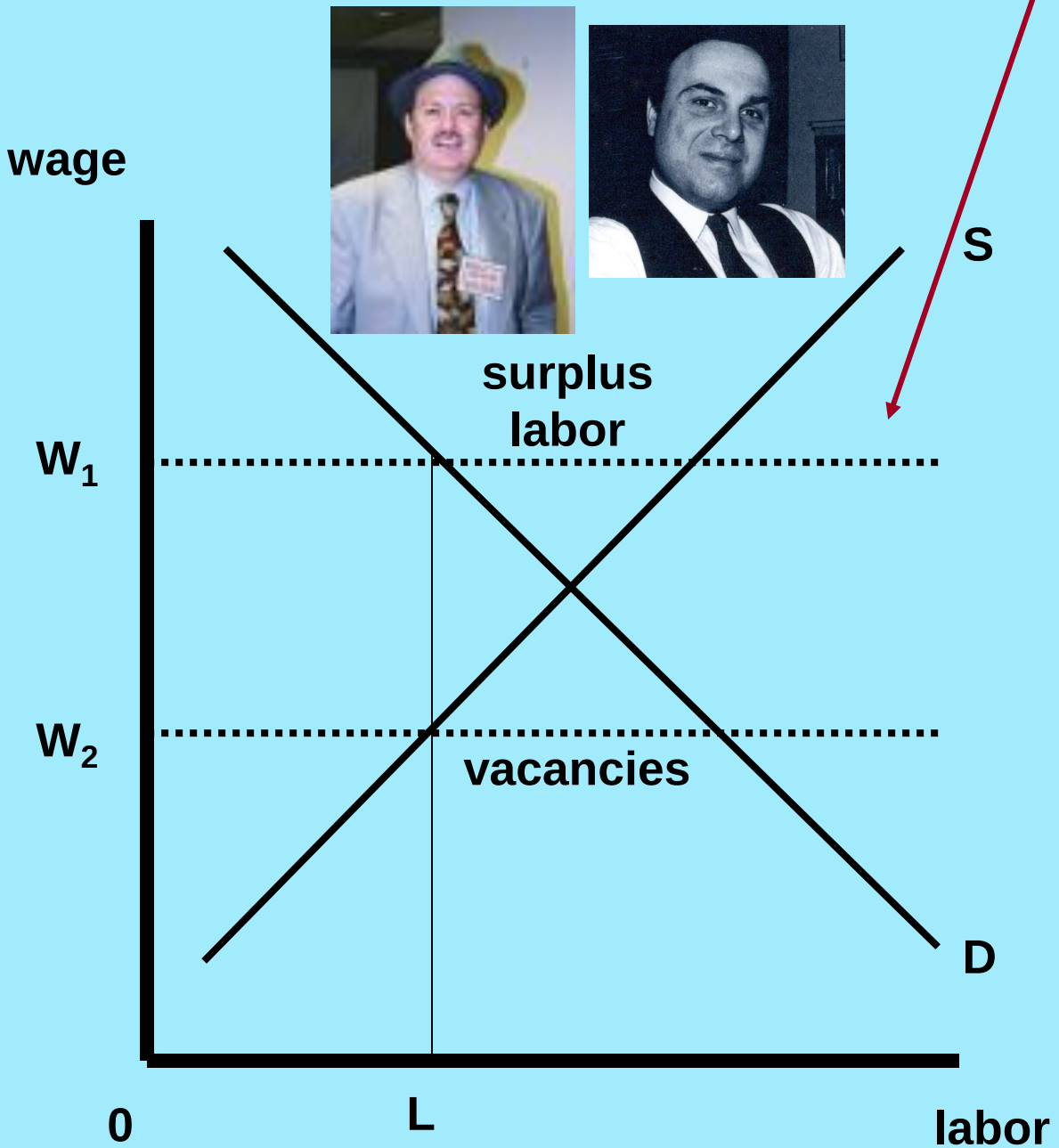


(Too?) Many stories of why the NAIRU was so low in the 1990s

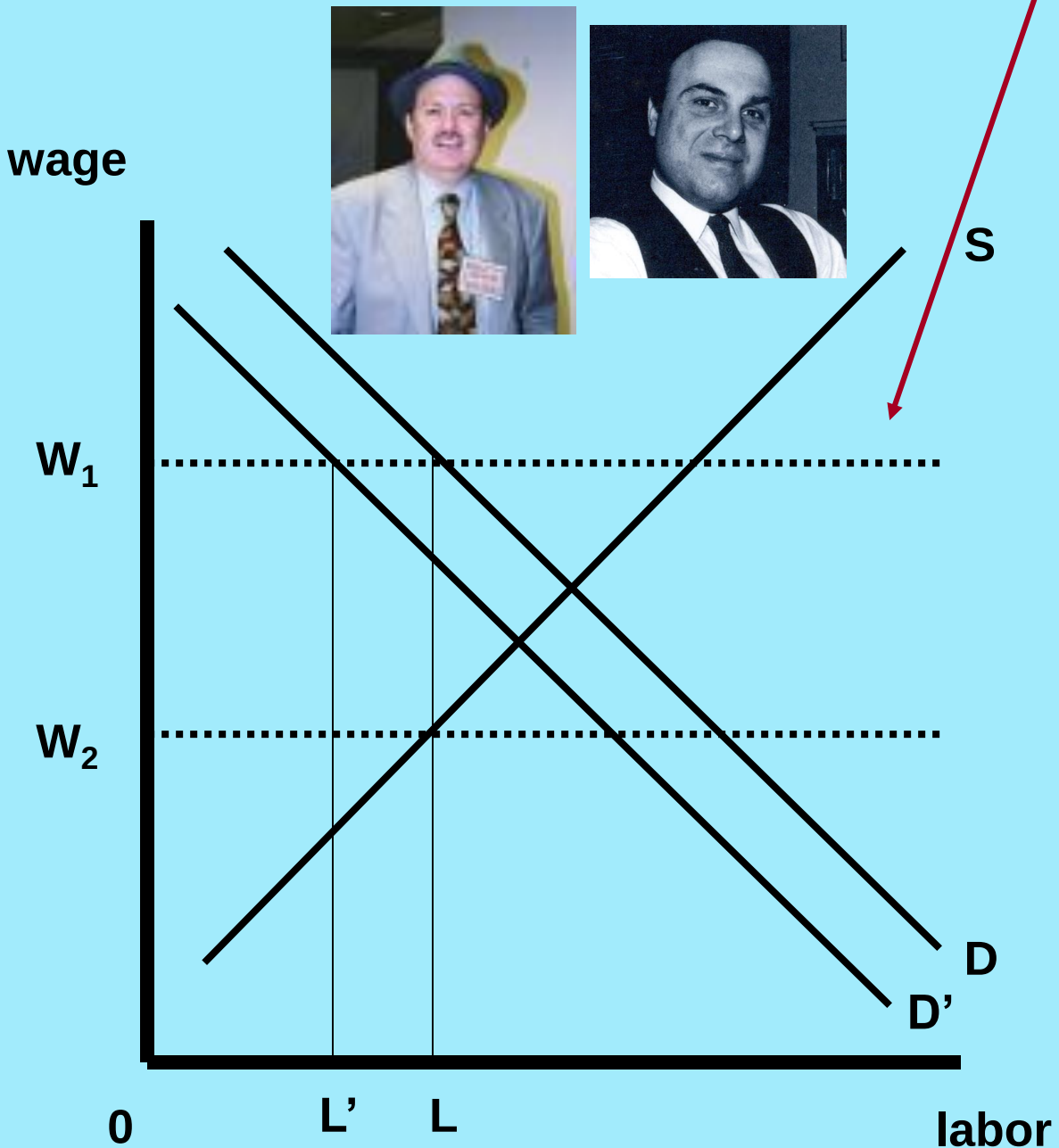


Problem: Productivity/ technology and trade stories are potentially labor-displacing which could raise NAIRU.

Moving from a “monopoly” wage labor market...



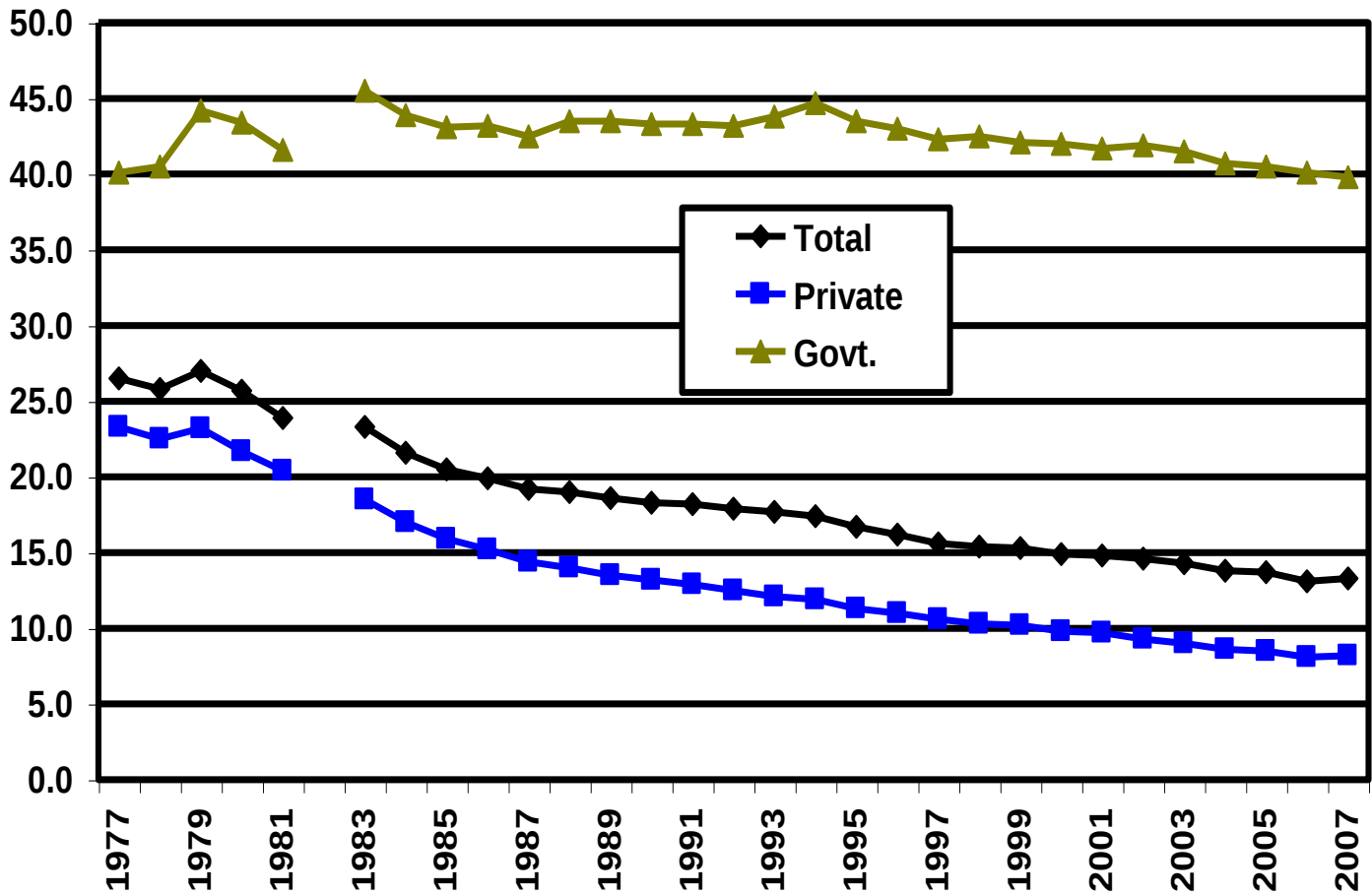
Moving from a “monopoly” wage labor market...



...where a fall in demand reduces employment and employers lay off workers

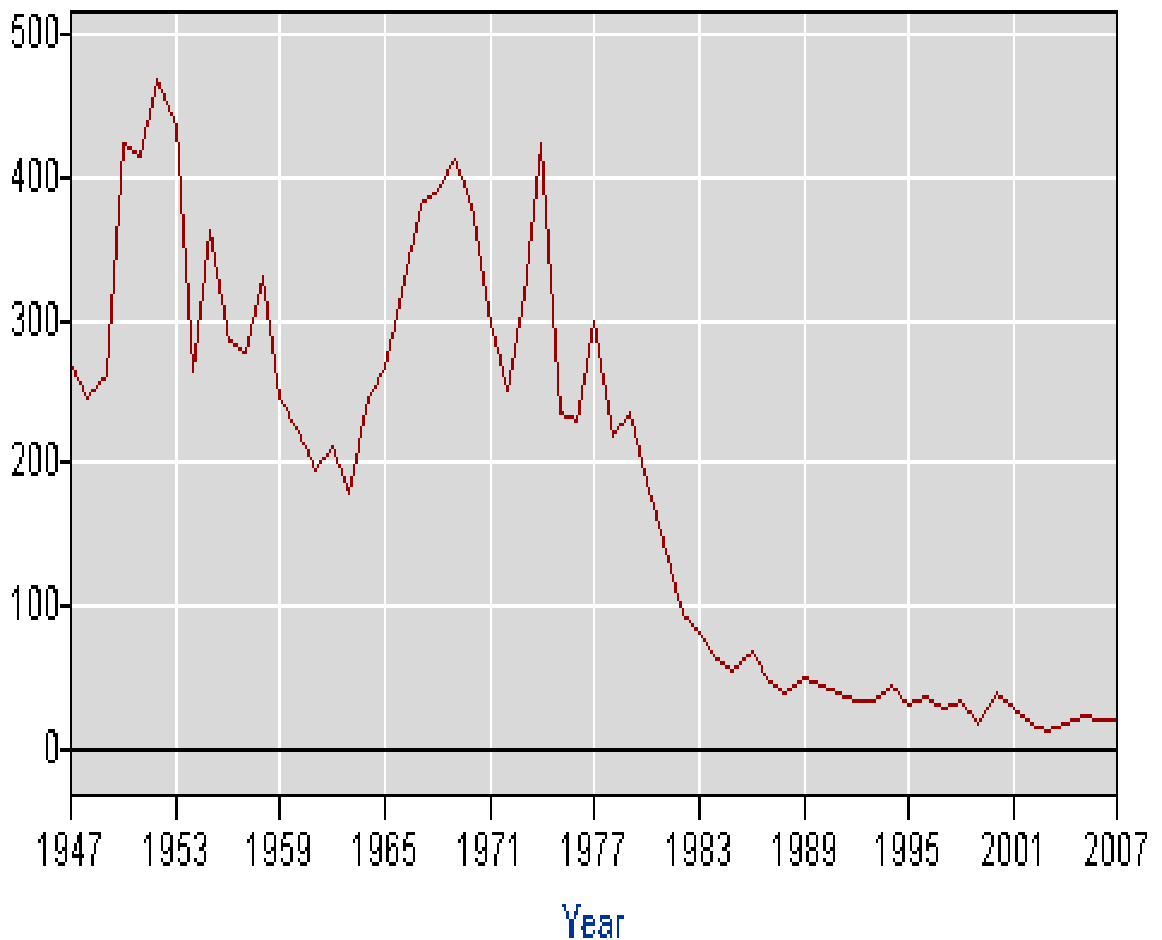
Decline in Union Coverage

Union Representation Rates for Wage and Salary Workers (Percent)





Number of Major Work Stoppages Beginning in Year



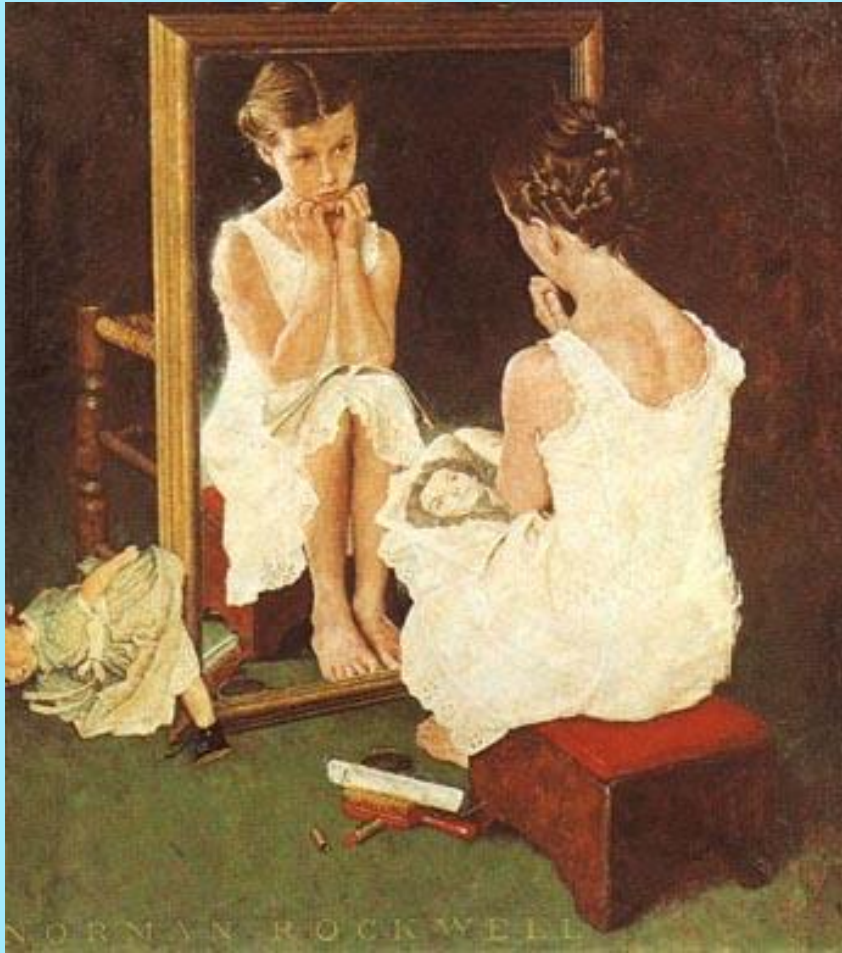
**“Major” = involving
1000 or more workers**

Concession Bargaining



LABJ 12/1/08

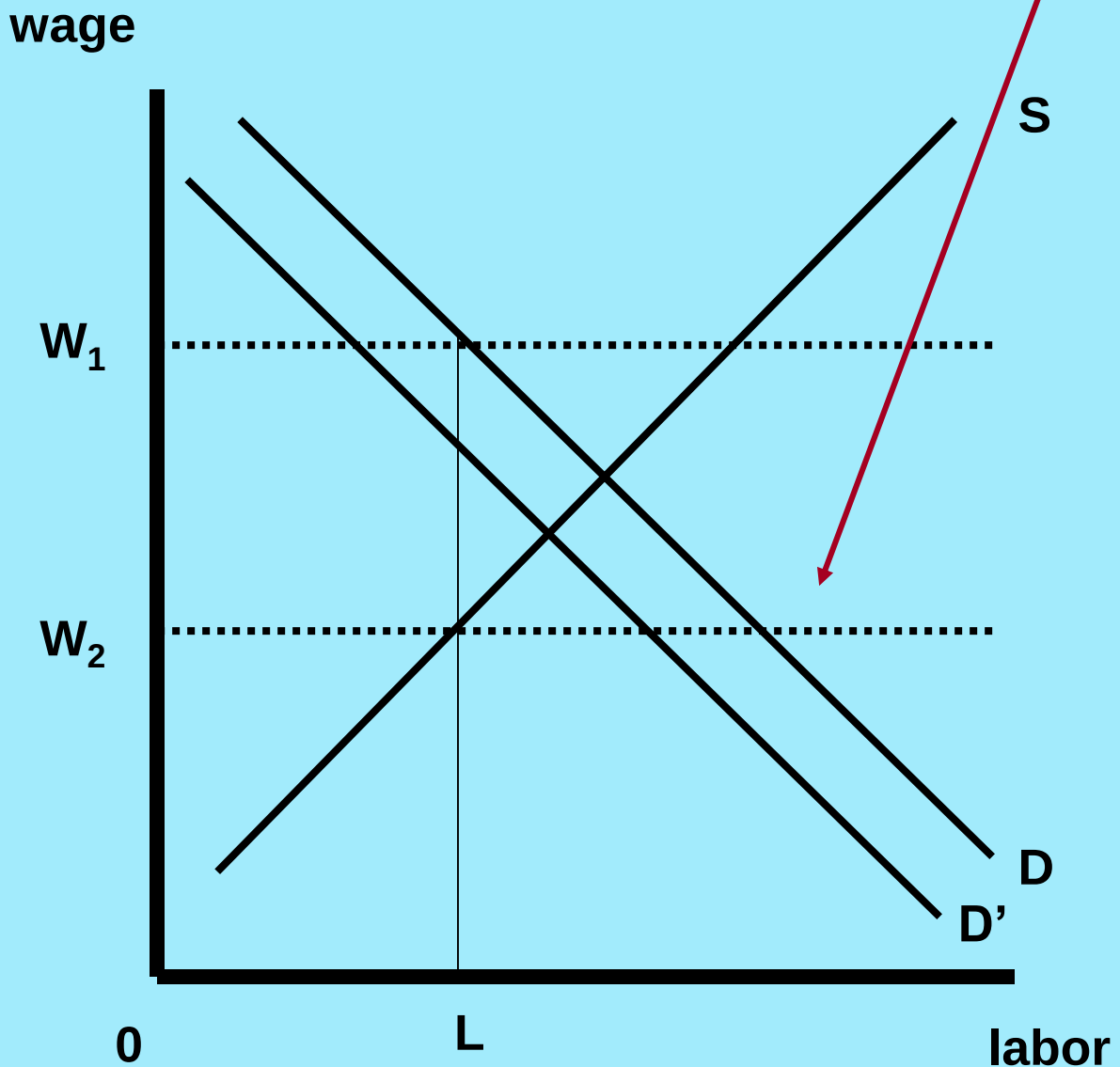
Monopsony is the mirror image of monopoly



Buyer Power Rather than Seller Power

(Employer is buyer in labor market.)

Move to a monopsony wage labor market...



...where a fall in demand leaves employment unchanged and employers “lay off” vacancies.

Monopsony (in the labor market)



**Company
store**

**Company
town**



Standard example

Monopsony (in the labor market)



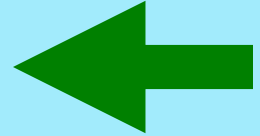
**Company
store**

**Company
town**



Standard example

Wait a minute!



What about?

Wait a minute!



Haven't you forgotten?

Wait a minute!



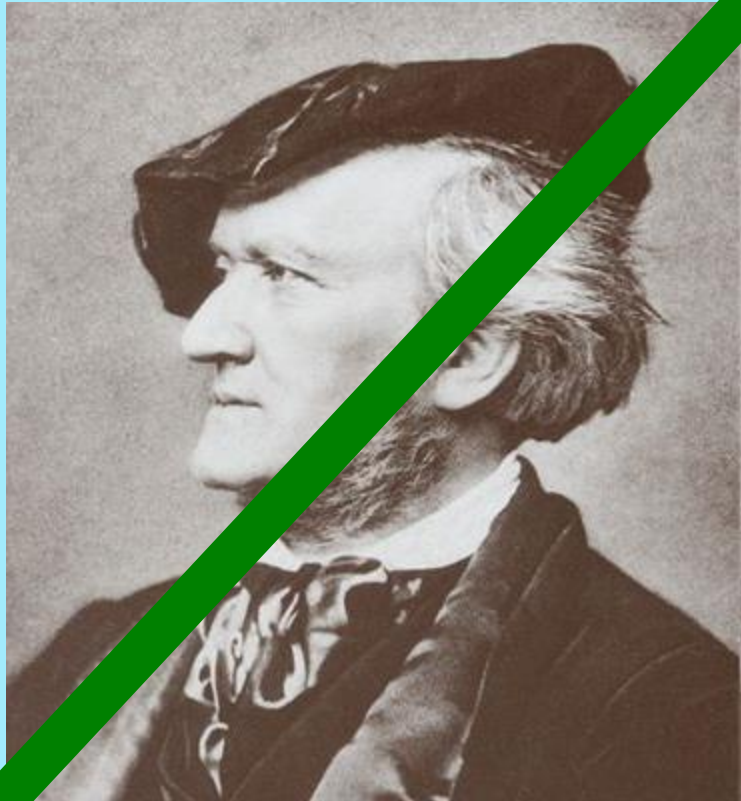
Haven't you forgotten?

Wagnerian Answer



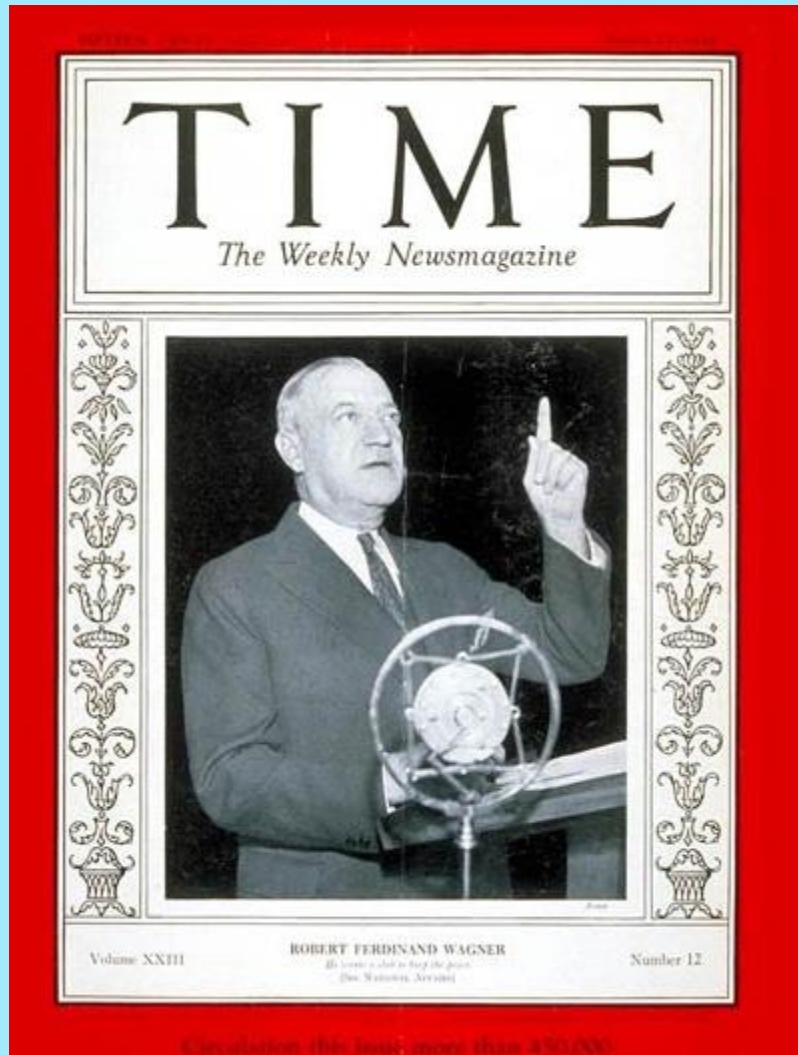
Haven't you forgotten?

Not Richard...



Haven't you forgotten?

But Robert F....



Haven't you forgotten?

National Labor Relations Act (Wagner Act) of 1935: Preamble

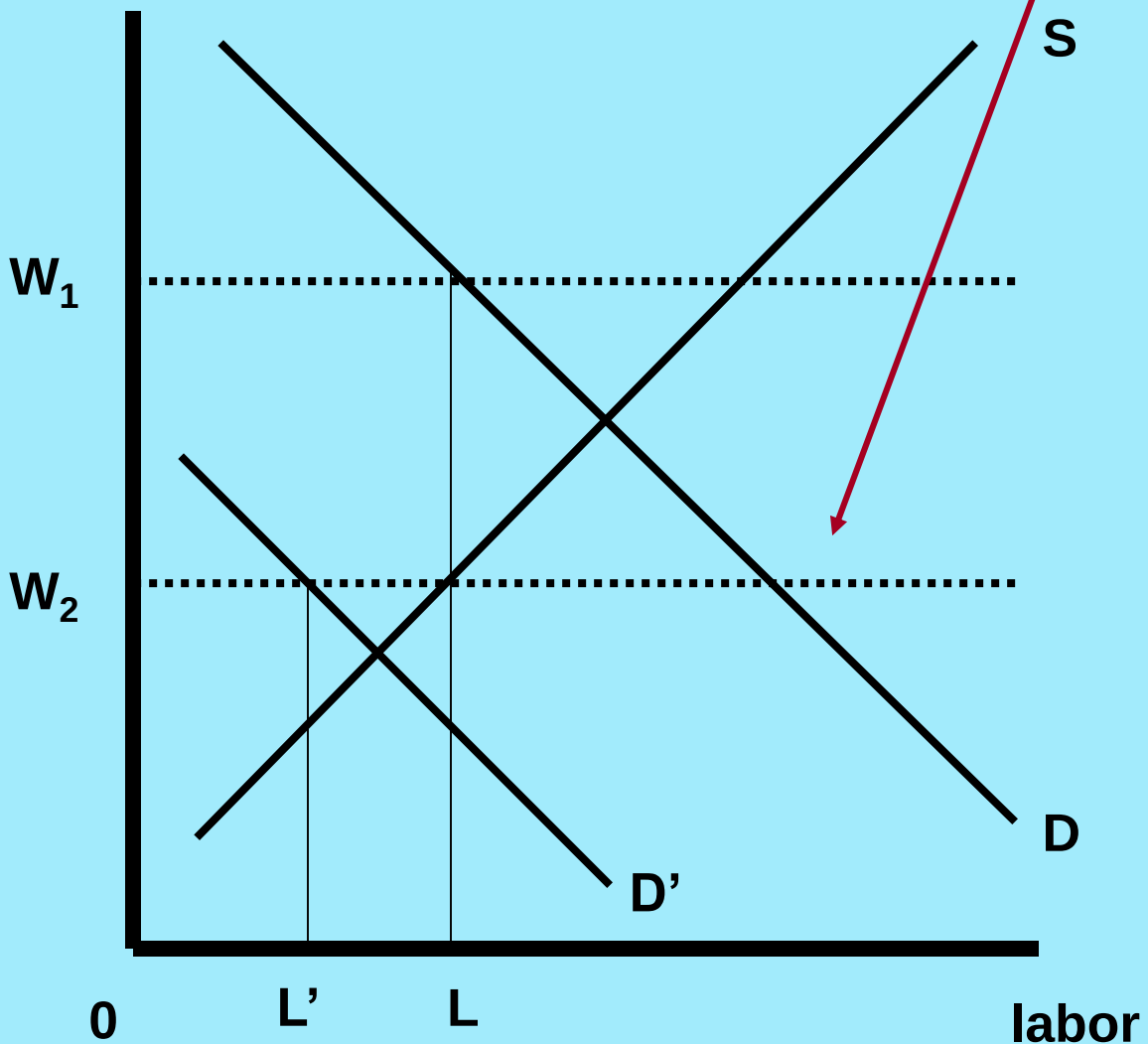


“The inequality of bargaining power between employees... and employers... tends to aggravate recurrent depressions by depressing wage rates and the purchasing power of wage earners...”

Haven't you forgotten?

Monopsony wage labor market...

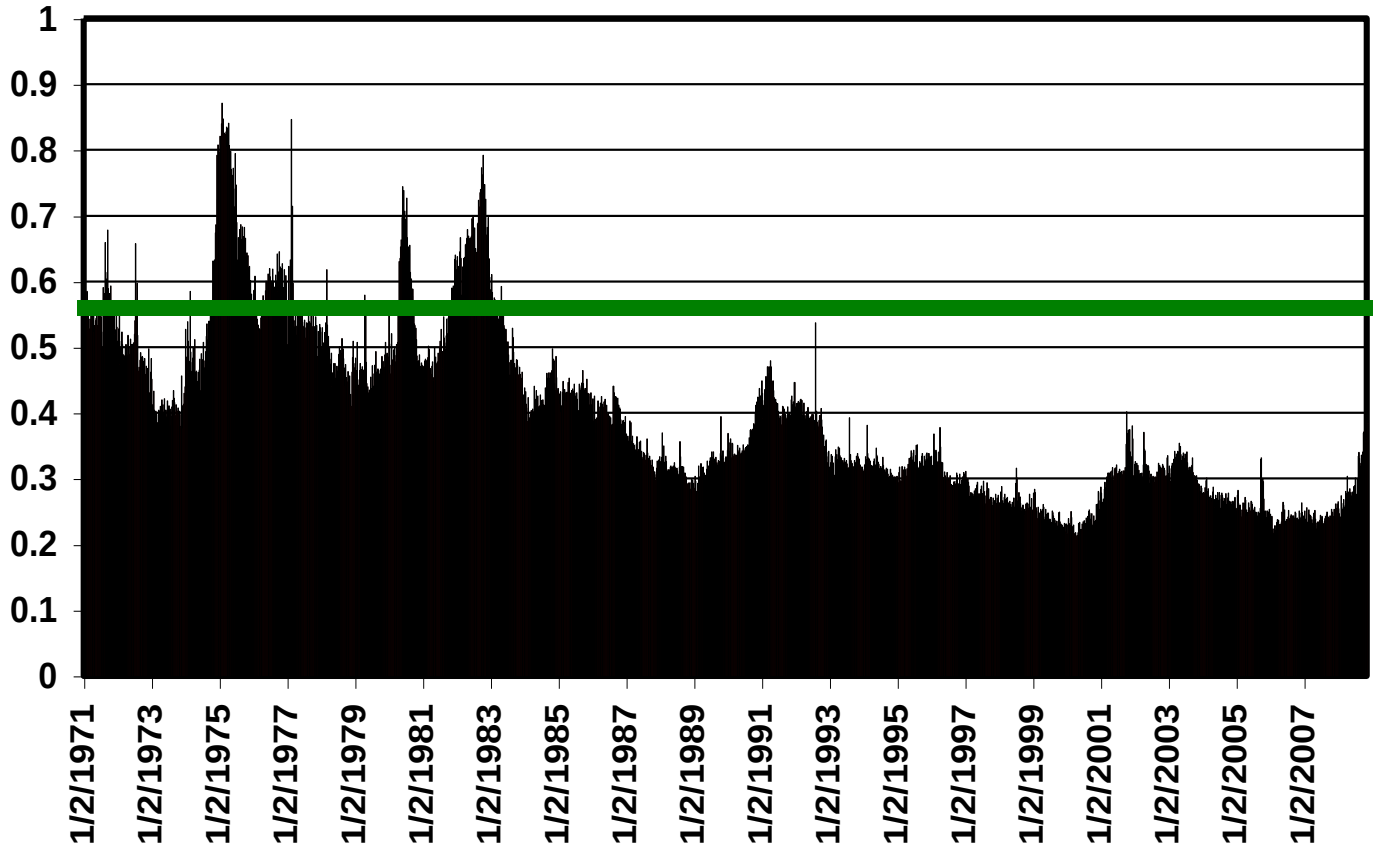
wage



...where a big shock overcomes the cushion effect and produce a drop in employment.

Old recessions: 0.6-0.9

Weekly New UI Claims as Percent of Covered Employment:
Jan. 1971 - Early Nov. 2008



New recessions: 0.4-0.5

All the News
That's Fit to Print

The New York Times

LATE CITY EDITION

Weather: Mostly sunny and
today; fair tonight and
Temp. range: today 64-80; Sun-
day 61-67; Temp.-Hum. Index possible
74. Full U.S. report on Page 3

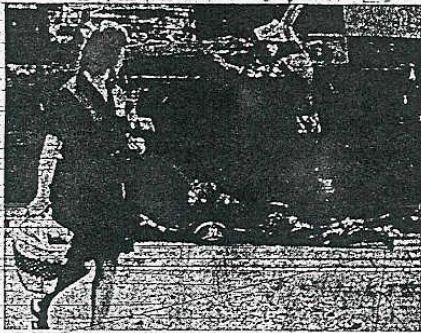
VOL. CXX...No. 41,477

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NEW YORK, MONDAY, AUGUST 16, 1971

15 CENTS

NIXON ORDERS 90-DAY WAGE-PRICE FREEZE, ASKS TAX CUTS, NEW JOBS IN BROAD PLAN: SEVERES LINK BETWEEN DOLLAR AND GOLD



As British soldiers take cover during disturbances, a Londonderry woman walks home.

Hate Pursues British Troops in Ulster

By BERNARD WEINRAUB
Special to The New York Times
BELFAST, Northern Ire-
land, Aug. 15—They walk
slowly down darkened Spring-
field Road, gripping loaded
submachine guns and gaz-
ing at the narrow streets
covered with glass, piles of
brick and burned-out turn-
stiles. The part week of violence has
turned like a foreign tongue
here, said Sgt. Colin
Butcher, a 32-year-old para-
trooper leading a platoon of
30 men in the Catholic quar-
ter. "Sure, they speak Eng-
lish and drink tea—but there's
about it."
For the 15,500 British sol-
diers in Northern Ireland—the
highest number since 1968—the
part week of violence has
evoked "terrors and angers."
They're... rubbish... these

A WORLD EFFECT

Unilateral U.S. Move
Mean\$ Others Face
Parity Decisions

By EDWIN L. DALE JR.

Special to The New York Times

WASHINGTON, Aug. 15—
President Nixon announced to-
night that henceforth the United
States would cease to convert
foreign-held dollars into gold—
unilaterally changing the 25-
year-old international monetary
system.
How many pounds, marks,
yen and francs the dollar will
buy tomorrow will depend on
decisions of other countries. In
some countries, the value of the
dollar may "float," moving up
and down in day-to-day ex-
changes. A period of turmoil in
the foreign-exchange markets
is all but certain, which means
uncertainty for American tour-
ists, exporters and importers.

The President said he was
taking the action to stop "the
attacks of international money
speculators" against the dollar.
He did not raise the official
price of gold, which has been
\$35 a ounce since 1934.
Devaluation Denied
Mr. Nixon said he was not
devaluing the dollar. But he
said "if you want to buy a
foreign car, or take a trip
abroad, market conditions may
cause your dollar to buy slight-

REACTION MIXED

Mansfield-Pleased by
Wage-Price Action—
McGovern Critical

By CHRISTOPHER LYDON

Special to The New York Times

WASHINGTON, Aug. 15—
Political and political econ-
omists who commented on Pres-
ident Nixon's speech tonight
drew careful distinctions be-
tween the domestic and inter-
national elements of the pack-
age.
In "wildly mixed" reactions,
greater support for the wage
and price freeze than for his
action on the international po-
sition of the dollar.
The Senate Democratic lead-
er, Mike Mansfield of Montana,
called the wage-price freeze
"harsh but very necessary."

"I'm delighted that his pa-
sion has finally run out," the
Montanan said.
Javits Is Gratified
Senator Jacob K. Javits of
New York, the ranking Republi-
can on the Joint Economic
Committee, said that without
the freeze, "we were blindly
rushing to national disaster."
He added:
"The measures to bolster the
dollar are particularly gratify-
ing to me. I expect to be able
to support the President in
some of his recommendations."



President Nixon after delivering televised address.

Highlights of Nixon Plan

Special to The New York Times
WASHINGTON, Aug. 15—Following are the high-
lights of President Nixon's address tonight:
Wages and Prices—The President ordered a 90-day
freeze on wages and prices and established a 90-day
freeze on wages and prices and recommended
Congress to administer the freeze and recommend
measures to stabilize wages and prices afterward. He
also called on corporations to extend this freeze to all
dividends.
International Monetary Policy—Mr. Nixon said the
United States would no longer convert foreign-held dollars
into gold, thus altering the entire world monetary system.
Some of the measures
Nixon can impose temporarily
himself and be asked for tol-
erance as he goes. Others re-
quire Congressional approval
and—although he proposed
some policies that his critics
on Capitol Hill have been urg-
ing upon him—will doubtless
face long scrutiny before they
take effect.

SPEAKS TO NATION

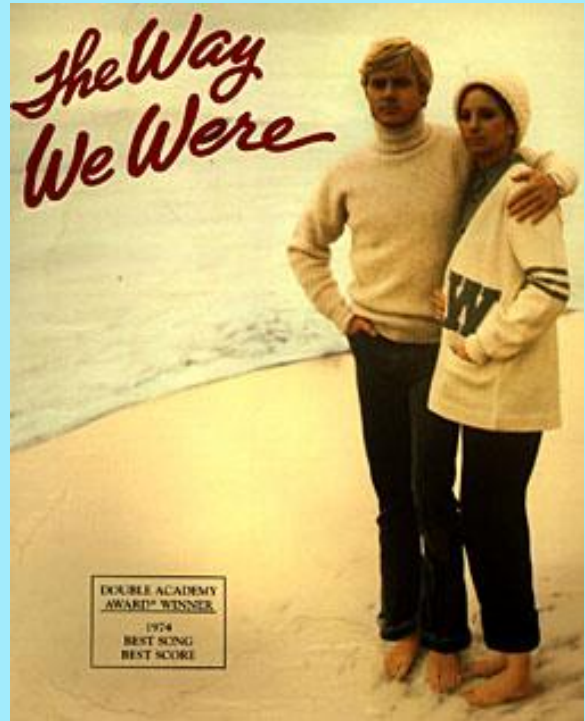
Urges Business Aid to
Bolster Economy—
Budget Slashed

By JAMES M. NAUGHTON

Special to The New York Times

WASHINGTON, Aug. 15—
President Nixon charted a new
economic course tonight by de-
claring a 90-day freeze on
wages and prices, requesting
Federal tax cuts and making a
broad range of domestic and
international moves designed
to strengthen the dollar.
In a 20-minute address, tele-
cast and broadcast nationally,
the President appealed to Ameri-
cans to join him in creating
new jobs, curbing inflation
and restoring confidence in the
economy through "the
comprehensive new eco-
nomic policy to be undertaken in
the next four decades."

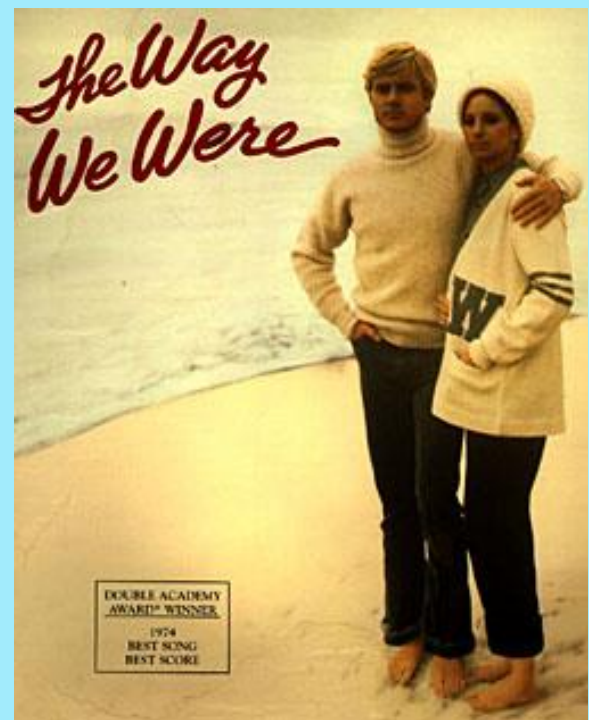
Nixon imposes
wage-price
controls
beginning in 1971





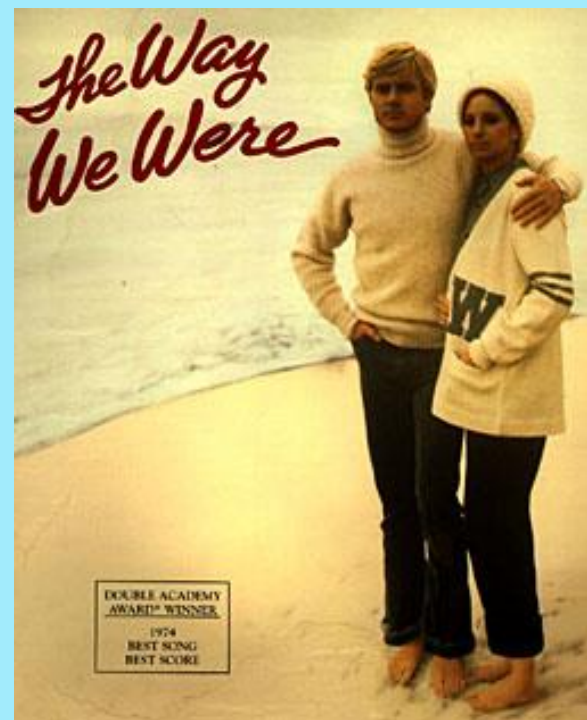
"Look, George! I think it's begun!"

**Nixon imposes
wage-price
controls
beginning in 1971**





**Carter wage-price
guidelines come
under stress due to
union settlements**



Economist Magazine

June 28, 2008

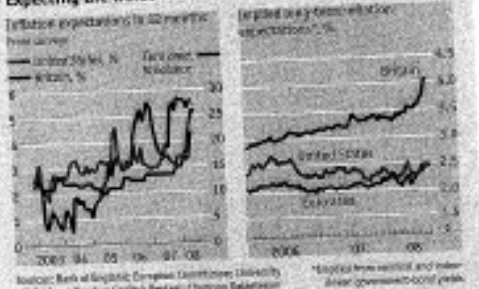
6 Finance and economics

The Economist June 28th 2008

Economics focus | Grim expectations

Expectations of inflation have risen. How worried should central bankers be?

Expecting the worst



IN 2002 John Taylor, a well-known monetary theorist, gave a speech in honour of Milton Friedman, the great economist who died in 2006. Mr Taylor described how the low and stable inflation of the previous two decades emerged from a more disciplined monetary policy, inspired in part by Friedman's analysis. "In the United States when the inflation rate approached 4% in 1968, the federal funds rate was about 5%. When the inflation rate approached 4% in 1989, the federal funds rate was about 10%, clearly a much larger response." Once again, America's inflation rate is at 4% but the fed funds rate is just 2%. With inflation high and interest rates low, many are worried that the lessons set out by Mr Taylor and by Mr Friedman before him are being ignored.

If policymakers have until recently seemed remarkably relaxed about higher inflation, that is because it reflects a jump in the cost of oil and food rather than a broad acceleration in prices. When commodity prices shoot higher, the standard policy response is to treat the resulting rise in inflation as a once-and-for-all shift in relative prices. An interest-rate increase big enough to squeeze inflation back down in short order would cause a needlessly large rise in unemployment. As long as expectations of future price changes are stable, policymakers can breathe easily. Firms and workers are unlikely to push other prices and wages higher, and so the surge in inflation will soon pass.

This textbook account puts expectations at the heart of the inflation process. Until recently, central bankers have looked on the stability of inflation expectations with satisfaction. The public seemed to trust that independent monetary stewards would not be tempted, as politicians might be, to keep interest rates too low to control inflation. Now, however, inflation expectations have started to pick up sharply, which is putting the credibility of central bankers to the test. On June 25th the Federal Reserve's open-market committee kept American interest rates on hold. Though it acknowledged that upside risks to inflation and inflation expectations had increased, it gave no hint that higher rates were imminent. This suggests that inflation expectations are, perhaps not as central as they were once assumed to be.

There are two main ways of deriving expected inflation, each with its own flaws. The first is to ask people what they think the inflation rate will be. Recent replies are worrying. A survey by the University of Michigan shows that inflation is expected to be over 5% in the next year, the strongest reading since 1982. In Britain expectations have risen to their highest level since the central

bank's survey began in 1999. A poll of the euro area, done by the European Commission, also shows a rise in the balance of consumers expecting higher inflation (see left-hand chart).

One reason to question these shifts is that consumers' perceptions often differ from reality. Expectations shot up in the euro area around the time when retail prices were first quoted in the new currency, but the feared inflation never materialised. Consumers may be overly sensitive to changes in the price of frequent purchases, such as food and fuel, while they overlook the stability of other prices. As the effect of the commodity shock fades, expectations are likely to follow recorded inflation back down again. Another frequent complaint is that expectations are usually measured one year ahead when, arguably, what matters are people's beliefs about medium-term inflation. Then again, where indicators on these are available, there are hardly encouraging. Expected inflation for the next five to ten years is 3.4%, the highest since 1995, according to the Michigan survey.

Measures derived from financial markets may be less volatile, but have shortcomings of their own. An established gauge is the yield gap between conventional and index-linked bonds. Inflation expectations are implied by the extra return investors demand to forego protection against future price increases. On this basis, they are increasingly nervous about the inflation outlook in the euro area and especially in Britain (see right-hand chart).

One problem with such gauges is that they are based on nominal bond yields, which include a risk premium for inflation's volatility. Another is that the pool of index-linked bonds is much smaller, and thus less liquid, than that of regular bonds. When investors are nervous, they will accept lower yields in exchange for the liquidity that conventional bonds offer. This pushes down implied inflation rates, particularly in America's bond market. The Federal Reserve Bank of Cleveland publishes a series which, after adjusting for these inflation-risk and liquidity premiums, lifts expected inflation to 3.3%, from 2.5%. By contrast, market-based measures in Britain may exaggerate inflation fears. Pension funds are eager buyers of index-linked assets, because the rules require them to buy securities to match their commitments to protect some pensioners against inflation. That pushes down real yields and pushes up implied inflation expectations.

Dragging anchor

However imprecise the measures of inflation expectations, central banks in America, the euro area and Britain have all said it is important to keep them anchored. But in a speech on June 9th Ben Bernanke, the Fed chairman, admitted to gaps in knowledge about how the actions of central banks affect inflation expectations and how these affect inflation. The focus is usually on the threat of a wage-price spiral. Since workers care about real wages, expectations of higher inflation may lead to bigger wage claims, push up employers' costs and create the very inflation that employees fear. Yet little is known about what firms expect inflation to be and how, if at all, these beliefs influence pricing decisions.

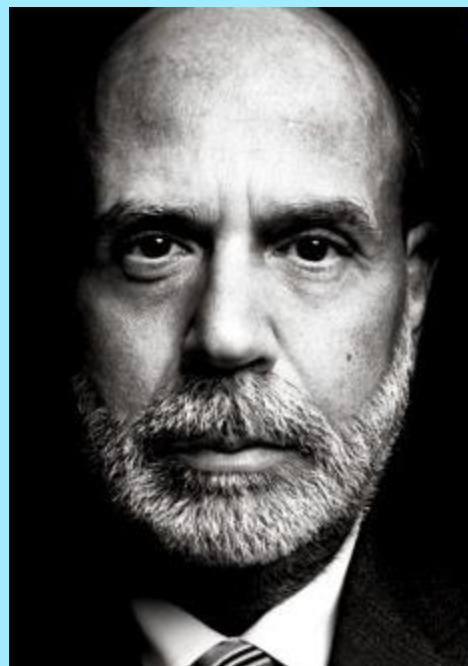
If an inflation psychology is returning, not all the rich world's central bankers appear to be treating it with the same degree of fear. Only the European Central Bank has signalled that it will raise interest rates. Its American and British counterparts may be right in judging that inflation expectations will be attenuated by an economic slowdown, and flexible labour and product markets. If they are not, they run the risk of squandering the credibility their predecessors earned at such a high price. ■

Economist Magazine

June 28, 2008

Dragging anchor

However imprecise the measures of inflation expectations, central banks in America, the euro area and Britain have all said it is important to keep them anchored. But in a speech on June 9th Ben Bernanke, the Fed chairman, admitted to gaps in knowledge about how the actions of central banks affect inflation expectations and how these affect inflation. The focus is usually on the threat of a wage-price spiral. Since workers care about real wages, expectations of higher inflation may lead to bigger wage claims, push up employers' costs and create the very inflation that employees fear. Yet little is known about what firms expect inflation to be and how, if at all, these beliefs influence pricing decisions.



Attention macro policy makers and
macroeconomists:

***“Be careful about what
you say. It might be
what you think!”***

Erickson & Mitchell. (October 2005). Not
yet dead at the fed: Unions, worker
bargaining, and economy-wide wage
determination. *Industrial Relations* , Vol.
44, No. 4.

Warning!

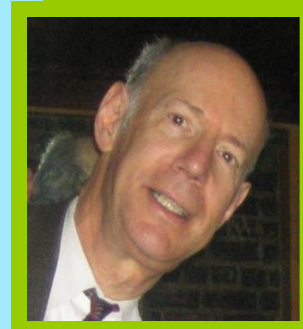
WARNING!

Warning



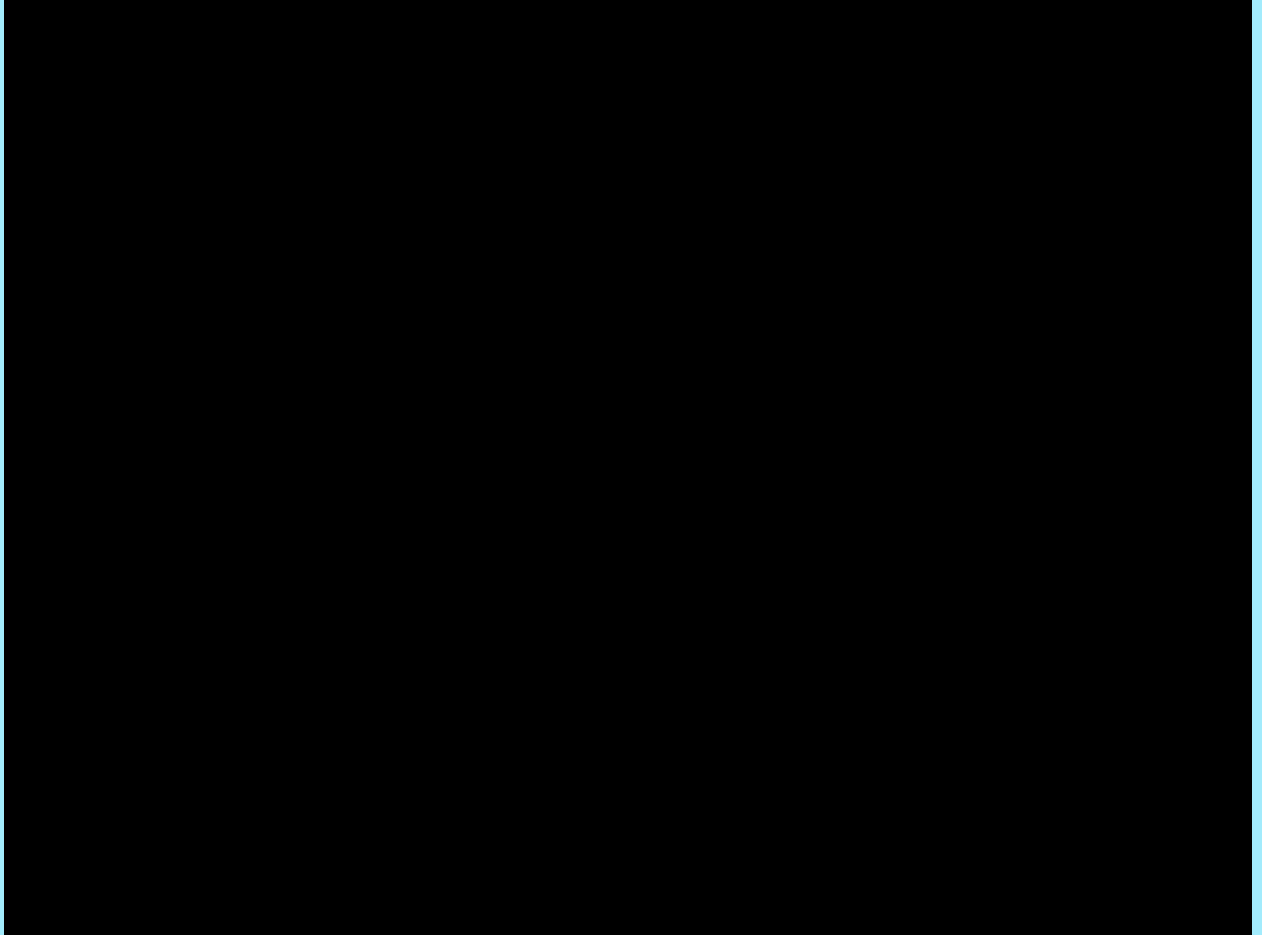
This is collective bargaining
language and thinking:

- Workers will “demand”...
- Workers won’t “accept”...



[illegible]

What shouldn't the new president do?



Better to diagnose labor market properly and don't worry about wage-push inflation

Implications of Employer Ascendancy



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61ST ANNUAL MEETING

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